

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 SPC-03 SAM-01 AID-20 EB-11

NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 DODE-00 PA-04 USIA-15 PRS-01

NIC-01 SAJ-01 L-03 DRC-01 /183 W
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R 200301Z FEB 74

FM AMCONSUL HONG KONG

TO AMEMBASSY TOKYO

SECSTATE WASHDC 9625

INFO AMEMBASSY LONDON

USLO PEKING

AMEMBASSY TAIPEI

C O N F I D E N T I A L SECTION 1 OF 2 HONG KONG 1827

PASS TREASURY

E.O. 11652: GDS

TAGS: EFIN CH JA UK

SUBJECT: JAPANESE CREDITS FOR PRC

REF: (A) HK 852; (B) 1973 HK 12546

SUMMARY: LONDON BRANCH OF BANK OF CHINA HAS ACCEPTED FIXED DEPOSITS FROM FOUR JAPANESE BANKS TOTALLING ABOUT US\$60 MILLION, AND OTHER JAPANESE BANKS ARE "MAKING CONTACTS" FOR THISPURPOSE. TERMS ARE SIX MONTHS, AT " ABOUT THE GOING EURODOLLAR RATE" AND EASILY RENEWABLE.

JAPANESE CONGEN IN HONG KONG BELIEVES THAT SEVERAL JAPANESE FIRMS HAVE ALSO ACCEDED TO PRC REQUESTS THAT WHOLE PLANT DOWN-PAYMENTS BE IMMEDIATELY TURNED INTO FIXED DEPOSITS WITH BANK OF CHINA, BUT IT HAS NOT BEEN ABLE TO CONFIRM
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SPECIFICS.

BOTH EVENTS SHOW THAT THE PRC IS DEVELOPING NEW SOURCES OF EXTERNAL FINANCE IN ADDITION TO ITS "DEFERRED PAYMENTS". THEY ALSO SUGGEST A GROWING PRC BALANCE OF PAYMENTS DEFICIT COMBINED WITH RELUCTANCE TO USE RESERVES, BELIEVED TO BE HEAVILY IN GOLD. WE BELIEVE THAT DEFICIT REMAINS MANAGEABLE AND THAT THE PRC DOES NOT NOW PLAN TO CUT BACK ON CURRENT LEVEL OF IMPORTS.
END SUMMARY

1. IN LATE JANUARY, BANK OF JAPAN (BOJ) HONG KONG DEPUTY REP YASUO TANAHASHI HAD CONFIRMED TO US THAT TWO JAPANESE BANKS HAD EACH MADE A US\$20 MILLION DEPOSIT WITH BANK OF CHINA (BOC) IN LONDON FOR A SIX MONTH TERM AT THE PREVAILING EURODOLLAR RATE (REF A).

2. ON FEBRUARY 12, BOJ HONG KONG REP HIROSHI WATANABE (WHO HAD ONLY RECENTLY RETURNED FROM TRIP TO MIDDLE EAST) TOLD CONGENOFFS THAT FOUR OR FIVE JAPANESE BANKS HAD MADE SIX-MONTH DEPOSITS OF US\$30-40 MILLION EACH AT "ABOUT THE GOING COMMERCIAL (EURODOLLAR) RATE". IN RESPONSE TO A DIRECT QUESTION, HE SAID THE LOWEST INTEREST RATE OF WHICH HE WAS AWARE WAS SEVEN PER CENT. HE ALSO STATED THAT THESE DEPOSITS WERE NOT TIED TO ANY PARTICULAR TRADE DEALS. WHEN OTHERS IN THE CONVERSATION OBSERVED THAT THIS WOULD MEAN SOME US\$120-140 MILLION OF UNITED FOREIGN EXCHANGE FOR PEKING, WATANABE AGREED.

3. SUBSEQUENTLY, ENTIRE SITUATION WAS REVIEWED AT TREASURY REP LUNCHEON WITH WATANABE, TANAHASHI, AND A CONGENOFF WHO HAD BEEN PRESENT AT MEETING EARLIER IN WEEK. TANAHASHI AGAIN STATED THAT FOLLOWING LENGTHY DISCUSSIONS, TWO JAPANESE BANKS HAD DEPOSITED US\$10 MILLION EACH AND THAT ONE WAS IN US DOLLARS AND THE OTHER IN SWISS FRANCS. IN RESPONSE TO A DIRECT QUESTION, HE SAID LATER WAS US\$10 MILLION WORTH OF SWISS FRANCS. HE ALSO SAID THE TWO OTHER BANKS HAD DEPOSITED ABOUT US\$20 MILLION EACH.

4. WATANABE SAID THAT BOJ HAD CONFIRMED THAT FOUR
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JAPANESE BANKS HAD NOW MADE DEPOSITS AND THAT THE INTEREST RATES WERE "ABOUT" THE EURODOLLAR RATE, WHICH HAD DECLINED SINCE THE DEPOSITS WERE MADE. HE NOTED THAT WHILE THE DEPOSITS WERE FOR SIX MONTHS (THE NORMAL EURODOLLAR TERM) THEY COULD EASILY BE RENEWED IF THE PRC CONTINUED TO BE WILLING TO PAY THE GOING RATE. WATANABE DID NOT, HOWEVER, COMMENT ON THE SIZE OF THE DEPOSITS BY INDIVIDUAL BANKS NOR DID HE MENTION

A TOTAL. HE DID SAY THAT A NUMBER OF OTHER JAPANESE BANKS WERE MAKING CONTACT WITH BOC TO DISUCSS SIMILAR ARRANGEMENTS.

5. WATANABE NOTED THAT THE CHINESE WERE STILL CONSCIOUSLY TRYING TO AVOID THE APPEARANCE OF TAKING FOREIGN LOANS. THE CHINESE HAVE SET THE MATURITY OF THE DEPOSITS AT SIX MONTHS BECAUSE ANYTHING LONGER WOULD LOOK LIKE A LOAN. FURTHERMORE, THE DEPOSITS TAKE THE FORM OF A "SWAP", WHICH IS A COMMON ARRANGEMENT BETWEEN BANKS HAVING A CORRESPONDENT RELATIONSHIP. IN FACT, HOWEVER, THE CHINESE HAVE MADE, AT MOST, MINIMAL DEPOSITS FOR THESE TRANSACTIONS IN THE JAPANESE BANKS, AND BOTH SIDES UNDERSTAND THAT THAT IS ALL THAT IS INTENDED.

6. ALTHOUGH SITUATION NOT VERY CLEAR, WE WOULD CONCLUDE THAT ABOUT US\$60 MILLION HAS BEEN ARRANGED FOR NOW AND THAT MORE WOULD BE AVAILABLE LATER AS OTHERS OF THE NINETEEN JAPANESE BANKS HAVING CORRESPONDENT RELATIONSHIPS WITH THE BOC ARE SIGNED UP. THIS WOULD SIGNIFICANTLY INCREASE THE UNTIED FOREIGN EXCHANGE AVAILABLE TO PEKING.

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R 200301Z FEB 74

FM AMCONSUL HONG KONG

TO AMEMBASSY TOKYO

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C O N F I D E N T I A L SECTION 2 OF 2 HONG KONG 1827

PASS TREASURY

7. IN ADDITION TO THE JAPANESE, AN UNNAMED BRITISH BANK MAY ALSO HAVE MADE A US\$100 MILLION DEPOSIT WITH BOC. WATANABE SAID HE STILL COULD NOT CONFIRM THIS REPORT (SEE REF B), BUT BELIEVED THAT SUCH A DEPOSIT HAD BEEN MADE AND WAS TIED TO A SPECIFIC PURCHASE OF UK MACHINERY.

8. IN ANOTHER DEVELOPMENT, JAPANESE CONGEN HONG KONG UNDERSTANDS THAT IN SEVERAL WHOLE PLANT CONTRACT NEGOTIATIONS, THE PRC REQUESTED THAT THE JAPANESE FIRMS CONCERNED IMMEDIATELY TURN THE CHINESE DOWN-PAYMENT INTO A LONG-TERM DEPOSIT IN BOC PEKING. ALTHOUGH HE HAS BEEN UNABLE TO OBTAIN ANY CONFIRMATION REGARDING SPECIFIC DEALS OR BANKS, JAPANESE CONGEN ECONOMIC OFFICER TAKAHASHI IS CONVINCED THAT THE INFORMATION IS TRUE. BECAUSE IT IS HIGHLY SENSITIVE COMMERCIAL INFORMATION, CONFIDENTIAL

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HE SAID, IT IS VERY DIFFICULT TO GET THE BANKERS TO TALK ABOUT IT. SUCH ARRANGEMENTS MIGHT WELL BE PUT INTO A SIDE AGREEMENT, A SEPARATE LETTER OR EVEN AN ORAL UNDERSTANDING RATHER THAN IN THE BASIC CONTRACT ITSELF.

9. SINCE ALL CHINESE PAYMENTS ARE MADE IN RMB IN BOC OF THE JAPANESE CORRESPONDENT BANKS, NET EFFECT OF SUCH ACTION IS TO REDUCE THE RMB AVAILABLE FOR JAPANESE PURCHASES FROM CHINA OR POSSIBLE CONVERSION INTO FOREIGN EXCHANGE. WE DO NOT KNOW EITHER THE MATURITY OF THESE DEPOSITS OR THE INTEREST RATE PAID.

10. FOR TOKYO: CONVERTING DOWN-PAYMENTS INTO DEPOSITS (PARA 8 ABOVE) COULD ADD TO THE PRC'S ABILITY AND WILLINGNESS TO CONTINUE HIGH LEVEL OF IMPORTS IN 1974 AS WELL AS TO JAPAN'S COMPETITIVE ADVANTAGES. THUS, ALTHOUGH WE RECOGNIZE THAT COMPANIES AND BANKS WOULD CONSIDER THIS VERY SENSITIVE COMMERCIAL INFORMATION, WE WOULD APPRECIATE ANY INFO YOU CAN DEVELOP.

11. COMMENT: AFOREMENTIONED DEVELOPMENTS INDICATE THAT THE PRC IS DEVELOPING NEW SOURCES OF EXTERNAL FINANCE IN ADDITION TO DEFERRED PAYMENTS (SUPPLIERS CREDITS). THIS SUGGESTS A GROWING BALANCE OF PAYMENTS

DEFICIT COMBINED WITH RELUCTANCE TO USE RESERVES WHICH
ARE BELIEVED TO BE HEAVILY IN GOLD. WE BELIEVE, HOWEVER,
THAT DEFICIT REMAINS MANAGEABLE AND THAT THE PRC IS BRINGING
IN NEW MEANS OF FINANCE AS DEEMED NECESSARY. ABSENCE OF
ANY INFORMATION ON SIGNIFICANT CUTBACKS OF IMPORTS OR
GOLD SALES WOULD CONFIRM THIS VIEW.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, BANK LOANS, LOAN AGREEMENTS, INTEREST RATES, EURODOLLAR MARKET
Control Number: n/a
Copy: SINGLE
Draft Date: 20 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974HONGK01827
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740222/aaaaauhx.tel
Line Count: 230
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: (A) HK 852; (B) 1973 HK 12546
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 20 JUN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 JUN 2002 by boyleja>; APPROVED <15 JAN 2003 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: JAPANESE CREDITS FOR PRC
TAGS: EFIN, CH, JA, UK
To: TOKYO STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005